



Lunches with Legends: Redefining Private Markets Leadership

With Mario Giannini, CEO

Getting to Know Mario

MO LIDSKY: Without any further ado, I'd like to introduce you to our very special guest today, the legendary Mario Giannini. Mario is the Chief Executive Officer of Hamilton Lane, a company that manages over \$850 billion, with 20 offices and over 500 employees around the world.* Mario is a member of Hamilton Lane's Board of Directors and co-chairman of various investment committees. He has been the CEO since 2001, and responsible for the firm's strategic direction, management structure, and process, and he also serves on several advisory boards of other distinguished sponsors like Thomas H. Lee, TPG Partners, and Providence Equity Partners. Their heads have been on Lunches with Legends before.

Prior to Hamilton Lane, Mario held either executive and/or general counsel type roles at Industry Valley Insurance Company, Fidelity Bank and Continental Illinois Bank. Mario received his BA from California State University, Master's of Law degree from University of Virginia and a Juris Doctorate from Boston College. In recognition of his charitable and professional achievements, he's also a recipient of an honorary Doctorate from California State University. Ladies and gentlemen, it gives me

great pleasure to welcome one of the most knowledgeable people about private markets, the one and only Mario Giannini. Mario, thank you so much for joining us.

MARIO: Pleasure, pleasure to be here. I'm not sure I know who that person you just described is.

MO: Well, we'll get into him and we'll figure it out together. I always like to begin with your personal story. I understand you were born in France, raised in Italy. I think you've referred to yourself as a reformed or recovering attorney. Can you take a minute to give us a little bit more of the personal story and how you came to lead one of the largest private market firms in the world?

MARIO: Sure. I think by accident. It's funny because there are so many people, people we hire, who know exactly what they want to do in life, and they have it mapped out. They're ten years old and they have it mapped out. And I feel like I've never had any idea what I've wanted to do. Someone called me the accidental CEO and that's probably pretty accurate. I've sort of always... I knew a couple things about myself. I struggle with authority, which means I have to keep moving around and probably should have my own company at some point, which is what I eventually did. Did I know it was going to be

private equity? No. Was I always interested in investing? Yeah, I always found it interesting. But I always went with things that I found interesting and that piqued my curiosity, and found myself here.

The way I got here is, the company just started and I thought I'd come here and take over another company. I did turnarounds. And I just stayed. I was like the bad penny that sort of never left, and 30 years later, I'm going, "I'm still here." But that's how it all happened. It was really a matter of, "What am I interested in doing?"

MO: Yeah. And by the way, in a little bit of my research, I uncovered the fact that you were a bit of a skateboarder early on.

MARIO: A terrible one.

MO: Is that true?

MARIO: I mean, I'm so old. In those days... Now, they have these skateboards and surfboards that... I think even I could do it now. Back in the day, they were really roller skates that you disassembled and put on a piece of wood, and you kind of went off and basically gave yourself 100 concussions before you could figure out what you were doing.

MO: Right. Any analogies you see between the world of skateboarding and markets?

MARIO: I never thought of it that way, except that had I known then what I know now, I would have been more careful about the risk of what's going on with the skateboard because at that time, like a lot of market participants, you say, "This is easy." Especially when you're going downhill, there's no problem, and then you hit a bump and you're not prepared for it. So, I guess there is an analogy that way.

MO: We're going to get into that in a bit. But I want to just paint a picture a little bit of you and your personal story and how that may shape or have shaped the culture of Hamilton Lee. So, I have it on good authority by the way, that I think you're

the only CEO of a nearly trillion-dollar investment firm that still drives a Toyota Highlander. So, yeah, it says a lot.

MARIO: Who have you been talking to?

MO: I've been talking to everybody. Yeah, you'll see what we'll get into it. But it really says a lot about your personal values. And when you look back and when you think about the more formative events, or perhaps personal challenges and inspirations, which formative events or which people helped shape who you've become today?

MARIO: I think, for me, a lot of it was people I grew up with, and everyone was just normal, just normal people. And I never really... Again, never really around people that said, "I'm extraordinary, therefore, I'm something different." You just were around fairly regular, average people and I think that's always been how I felt about... I certainly feel that way about myself. I have the impostor syndrome. I keep thinking someone's going to open the door and say, "All right, the gig is up. Get out of here." But I think you do have to always assume that there are people around you that are smarter, work harder, are undergoing greater hardships, are struggling more. You just have to think that way and that you're all sort of connected that way. I think my most influential mentors, if you will, have been teachers I had in my career. I was very fortunate. And that was always what I always thought.

MO: One of the things, and again, I'm sorry if I'm going into the archives of history, but...

MARIO: I'm a little scared.

MO: Yeah, I've never been labeled 'intimidating' but with information, you never know. Music, I'm told, has a particularly meaningful place in your heart, your life, and now your business. Some of the market updates that I've read from you have had music themes or analogies. Your conference rooms are named after guitars and bands. I think you even started a company band, The Hamiltones.

MARIO: Yup.

MO: Where I believe you're the lead guitarist, and I hear is actually quite good. So how did you become such a music or rock enthusiast? And even perhaps more importantly, why is it so important to you? What greater thing does it represent to you?

MARIO: Well, I grew up in the era of classic rock, and so, Led Zeppelin, that to me, I just grew up thinking I should be a rock guitarist. Obviously, I'm not. You can tell what my talent level was, but it was just something I grew up with. And as Hamilton Lane developed, I think one of the things that I try to do, we try to do, is create something that culturally bound us together, and one of those things is music. Because what I found, what everyone has found is, music ties people together. You may not all like the same kind of music, but it is something that instinctively draws people together. And like the conference rooms, it's something that makes people feel like, "We're something unique. We're something different and were tied together." And when people leave here, they don't say, "Oh, we met in Conference Room B or the Lincoln room," or whatever they're called, "We met in the Slash conference room." It says something about, "Okay, that's the firm."

I've been doing updates during the pandemic, weekly, monthly, whatever, and I have a music piece in it. The thing that I get the most comments about around the world is the music piece. People say, "You suck. You have no idea what you're talking about with music," or, "I like this better," or, "You're wrong about that." But it ties people together in a way that very, very few things do.

MO: Yeah. Well, by the way, your staff have raved about you being a little bit of a connoisseur, a walking music anthology. But I was told, and this may be politically incorrect to articulate, but that you don't actually like Bob Marley or the Grateful Dead.

MARIO: Marley, I can tolerate. The Grateful Dead are the worst band in the history of music. And their spawn, Phish, is what happens when Grateful Dead kids grow up. It's just... Yes, no, I'm not a Grateful Dead fan. I just said that and people just go crazy because even here, we have people who were Deadheads that followed, as you know, the band around the country. Imagine that.

MO: Yeah. Listen, Mario, when I heard that, I almost cancelled the interview.

MARIO: Well, now hearing that, I'm canceling the interview here, now that you're a Deadhead.

MO: Anyway, just before we move on to Hamilton Lane, I want to touch on another passion of yours, and that is your wine collection. I hear you're an avid collector and you religiously give out wine to your friends, your colleagues and others. How did that come to be? You talked a little bit about why music is important. Why does wine hold such an important place in your world?

MARIO: Well, I always remember that around the house, my parents drank wine at the table and we drank it with them. We'd have a sip, and I think we'd say, "Wow, this is cool." And so, wine was always part of talking, of socializing. It was always part of what you did when you had conversations at the table. I wouldn't call myself a collector. I drink it, I like it, so I think I'm more of that. But wine, in a way, it's the same thing.

During the pandemic, I would send bottles to employees, just feeling like you connect, and when you have wine over dinner, I feel like conversation, obviously, because you're having wine, you're drinking, it flows. But I think it's again, it's another thing that connects people. You have a conversation about what you like, what you don't like. I hate wine stops, but what do you like? What don't you like? And try different kinds. So it's that connection part.

Growing a Firm Like Hamilton Lane

MO: Right. Alright, let's get to Hamilton Lane. So, Hamilton Lane is an incredible organization. Like we said, \$850 billion, 20 offices around the world. Have been around for over 30 years, and I believe you took the company public in 2017. What has been the greatest challenge and perhaps thrill of leading a company of this magnitude? And if I could also ask you, what has been the biggest surprise for you since you went public?

MARIO: I'll start with that one first. The surprise has been in two completely different ways. The first surprise is how little it has changed us as a firm because I was very paranoid about how we would be as a public company. You have all these people looking at you, blah, blah, blah. It hasn't really changed how we operate, and it hasn't changed much of the culture. The culture has changed more because of growth than it has because of being public, which I think is interesting, I didn't expect that.

The other part that is different, though, is you now have a stock price, and what's fascinating about that stock price is, it goes up and down unrelated to things that are going on in the business. So, when it's going up, the business is doing what it's doing and you think you're a genius. You're like, "I am so smart," and it's going down even though the business is doing fine, and all of a sudden, people look and talk to you about what's wrong. And you realize there's this different animal out here that is having an influence on everyone's psyche, about how the firm is doing, even though the firm is somewhat detached from that price, particularly in shorter terms. That, I had not expected, and I think it's just something you have to ignore, frankly, and just get on with doing what you do. So that part has been surprising in both different ways.

I think the challenge of growing a company – growth has its own challenges. It is culturally

hard to maintain. When you're a certain size, you have pipes of communication, people talk to each other in a certain way, decisions are made in a certain way. As you get bigger, it gets harder, and you have to adapt those pipes, you have to adapt the way you communicate, you have to figure out how to maintain the culture when, now it's a bunch of different people in different places. That's hard, and you have to keep changing because again, especially if you're successful, you begin to believe your own story. You say, "Wow, this is really great," and it's not because you know as you're growing and successful, that the seeds of not growing and being unsuccessful are starting to germinate and you have to make sure you know where they are and how to shift to make sure you're staying ahead of the curve. Growth is its own challenge that I think is under-appreciated sometimes.

MO: 100%. I think that that persistent focus on how do we... and even paranoia, I would say, is partly what's kept you successful. I believe, if I remember correctly, for the last 10 consecutive years, Hamilton Lane has been named among the best places to work, I think, in money management. So other than this persistent paranoia, what has been the secret? What are some of the principles or cultural norms, if you will, that you have instilled in the organization to achieve that accolade?

MARIO: Well, I think... I wish it was me. It's a lot of people. I'll tell a story. We did a management buyout in '03, essentially, is what it turned out to be, and one of the people that joined it became a director, a man named Chris Sexton. He was one of the prime movers at Morgan Stanley as it became a much bigger firm and went public, etcetera. He was very instrumental in the development of Morgan Stanley. When he was talking about joining the board, he and I had lunch and I was giving him this talk about culture, and he looked at me and said, "That's a bunch of crap." And I said, "Oh my God. What?" And he said, "I'll tell you what culture is. Culture

is what you, Mario, do. That's what people are looking at. That's what they look at and say, 'Here's what you need to be, to be successful at Hamilton Lane,'" because obviously he's CEO, he must be successful. And that's what it is.

We can say all of these things, but at the end of the day, if you are what we say we are, which is an organization dedicated to having clients have a great experience, investing well, and treating employees fairly, then you better be doing all of that with actions. And that to me is what I hope that that award at least indicates we're on the right track, of people looking at each other and saying they do that, they don't just say it, because I think there is a lot of – especially in our industry – “We have the greatest salesman in the world in private equity and private markets,” and they just talk, and I think people know the difference between talk and action.

MO: There's no question, you've backed up talk with action and obviously, it's been recognized. On a related note, everybody I speak to seems to have issues finding and retaining talent today. Have the accolades you've achieved and the actions you've done and the culture you've built allowed you to totally obviate that challenge, or are you wrestling with the same human capital issues that the rest of us are sort of struggling with?

MARIO: I'd be lying if I said we were different. I think it is a challenging environment for a whole host of reasons. Interestingly, I think the pandemic made it harder on some levels. One of the things that, if you're an organization like ours, and I'm not saying everyone needs to be, but if you're an organization like ours, where teamwork and being around each other is terribly important, the pandemic, while Zoom is great, takes away that minute in the hallway, takes away that going to an office and having dinner with everyone, and it makes it harder to feel connected and part of the culture. And so, that, I think makes it harder to retain people because they start feeling disconnected. You almost inevitably have to,

and there are ways you can try to mitigate that, but, no, I think that the world is changing and it's becoming more, for companies, a world where what employees want, what employees need, the respect you give employees becomes ever more important, obviously along with money. But it's not anymore, “Well, it's enough, it's Hamilton Lane, it's big, it's whatever.” No, we deal with that all the time, and I suspect it will continue for some period of time.

Innovating in the Private Markets

MO: Let's turn the conversation towards private markets, which I think was the overarching theme here. I think, as an external observer of Hamilton Lane, I've been able to watch the firm from the sidelines and seeing that you've introduced lots of innovation into private equity in particular, but I suspect broader private markets, things such as Evergreen Solutions for an illiquid market. Where do you see the most exciting innovation in private markets today, and what are you working on at Hamilton Lane's in that respect?

MARIO: Well, in terms of the evolution of the private markets generally, I think what you've seen over the last certainly 10 years, 15 years, is that the scale of the private markets has dramatically increased, and scale means both how many places you can invest, whether geographically, in sectors, in styles of investing and the kinds of clients and investors that you have. So, when you talk about Evergreen, I think the movement of the high-net-worth investors, they say retail – and maybe we'll get to retail at some point in private equity – a little hard right now, especially in the U.S., but we will. I think that the innovations in those areas are critical because what you have is an institutional construct, that's where private equity came from. That doesn't work in the high-net-worth and retail channel, you have to have different... Evergreen as an example. You have to have different structures

to make it fee-efficient, to make it practical, to make it deal with the concerns that market has, relative to the institutional market. So, I think that area will be a really fast-growing area.

The other innovations, I think, maybe not so much innovations, but I do suspect you will see the private markets become enormous players in the conversion of energy from fossil fuels to something else, is it hydrogen? Whatever it is, that's not an innovation, but it is a totally new area where capital is going to, I think, come in many ways from the private market, so I think those two different ways, both where the money is coming from and where the money is going, are going to be hugely impactful things that alter the landscape.

MO: Let's talk about the step, the space in between, and the engine that powers the space in between. You and I previously chatted about the absence, the historic absence of technology in that space in between, and whereas what I know about Hamilton Lane is the role that you have played in pioneering technologies like Cobalt and Novata and others, but let's talk a little bit at a high level about the role of technology in private markets that you see, and then maybe drilling down to what Hamilton Lane specifically is doing.

MARIO: Sure. This is the only industry on Earth that believes that it won't be disrupted by technology. It's incredible how backwards in so many ways this industry is, and I'm talking about whether it's private equity, credit, you name it, it's a bunch of people who just sit in a room and say, "Oh, it seems like a good idea." And then they... God knows what they use to run their numbers and everything, but it is so backwards, and our view has been... I remember sitting in a meeting where someone said, "We're going to get disrupted, we Hamilton Lane, wouldn't it make more sense for us to figure out how to disrupt ourselves rather than get disrupted?" So we invest an enormous... For

us, an enormous amount of money. We have an enormous number of people dedicated to figuring out different ways to apply technology to our business to make it better, to make better investment decisions, to have a better understanding what's going on in the market, to have more transparency around portfolios, everything.

There are two huge impediments to it, one, in the general partner community, by and large, not everybody. It works the way it works today. Why change? Why spend much money on technology? "Hey, I'm making a fortune, why would I want to give it away to someone else?" And then the bigger issue, I believe, is on the limited partner investor community who will not spend a penny on technology. I get asked all the time, "What should I do to make my program better?" And what I say to them is, "Spend a dollar on staff, spend a dollar on a different program to figure out what you have in your portfolio, spend it on technology." They won't, they'll spend it to go to some conference to see somebody, or go to some... I don't know what they spend it on. They don't spend it on technology, so you have an industry that believes is not going to get disrupted and may be right, because the two big players in that industry are not recognizing that this might happen, but I think it's inevitable, again, you just... Maybe it's the last industry on Earth that gets disrupted by it, but it will happen.

MO: For sure. So specifically, coming back to Hamilton Lane, could you talk a little bit about how you've gone about disrupting yourself as it were?

MARIO: Well, Cobalt's a good example, because a big part of our business has been and is the advisory. We give advice, Cobalt essentially allows you to figure out how to do everything yourself, Cobalt essentially tells you, "I don't think I need Hamilton Lane to help me do that. I can get the information, I can get the analytics,

I can do a lot of the things by myself.” And we sat around going, “Is this a good idea? Isn’t someone going to say, “I’m going to buy that program and the hell with you guys?” And the answer is, our job is to put more value add to that client’s or that prospect’s investment possibilities, but at the end of the day, the world is going to go to where information even though it’s private, I know it’s private markets, information is more readily available and the analytics program around that is more robust.

That to us is where you have to go across all of this, you have to be looking at developments in blockchain to make it easier. Right now, I know I’m a reformed lawyer, so I can say this, how much time are you spending with lawyers? Way too much. I’m just telling you, even if it’s a minute, it’s way too much, and a lot of it is because this is a paper-intensive industry, that needs to grow up and it will, and for us, that’s hopefully where we begin to move it, Novata on the ESG side, “Hello, measurements. What are you measuring? Oh, I don’t know. It sounds good, it’s ESG.” No, you have to measure it, you have to have technology solutions to get the data, put it in a form that you can figure out what am I looking at and then allow you to measure it.

Hot-Button Topic: ESG

MO: Since you brought up ESG I may as well go there. Obviously, it’s a hot button topic, lots of interest, lots of interpretations, and I think recent events, particularly this or that we’ve seen with Russia and Ukraine, we’ve come to realize that there are some ESG policies that have put the West in the un-enviable position of being dependent on autocratic regimes. So, where do you see ESG heading? And how should we be thinking about it in the year or two ahead, if differently than perhaps we have been in the past?

MARIO: I’ll start with an overview of ESG. ESG is this three-letter acronym that just makes

everyone feel good. I think there’s a lot of talk and people feel good talking about it. “Are you ESG-conscious?” “Of course, I am.” What does that mean? And when you start to drill down, so I ask people, “Are you making decisions where you’re deciding manager A, who has a better track record, but isn’t as good on ESG as manager B. You’re going there?” “Hell no.” So, to me, it’s, again, not really technology, but it’s a frame of reference, ESG is enormously important for a variety of reasons, but until we as investors get our act together and figure out, what is it that we’re after, because right now all are after... I hate to say this, but we’re after the ability to give general partners a huge questionnaire that they have to answer, it’s their problem, but I asked, so good enough. Yeah, good enough, it’s not good enough. And again, as an industry, I think we will have to evolve into a place where we decide what is important, and it won’t be the same for every investor, so some will be focused on E, some on S, some on G. I think all investors have a different perspective on what’s important to them.

To me, the second part of your question, the E part of it is going to be a very, very large change in the way our industry operates. I think certainly the invasion has highlighted the dependence on fossil fuels. Is it good, is it bad? It’s not good. So, you will see a movement, but this is a very long range issue. This is not something that’s going to happen overnight, and I’ll give an advertiser for the private markets. The good thing for the private markets on this is just take the E part of it. You’re going to have the ability to invest in wherever your risk return profile leads you. There will be a bunch of venture investments around different technologies, different applications of technologies to make the grid more energy efficient, to develop new ways, new energy forms. There will be growth opportunities as some of these things get bigger. There will be buyout opportunities as the companies are larger, and then there’ll be infrastructure opportunities as you have wind

farms or whatever you're going to have around some of these technologies or applications. So, I do think that's why I said earlier, that I think the private markets are going to be a place where, on the E side of the equation, you're going to see a large number of opportunities and you're going to get to pick and choose the spots where you're most comfortable playing in that area. I think that trend is irreversible because there's now an economic incentive, there's a political incentive and there's a social incentive. So, when you have those three things going behind you, that's a pretty good wave.

Innovating Through Continuation Funds & GP-Led Secondaries

MO: Absolutely. Just before we get to the markets and what you're seeing, I just want to close the loop on the innovation side. We talked a little bit about technology, we talked a little bit of where it's coming, or who is going to. I just want to touch on structure a little bit. We've seen innovations in the structure of private markets in terms of things like continuation funds and GP-led secondaries. Maybe you could elaborate for those who are not familiar with what those are. But these are fundamentally, vehicles to both increase liquidity options for investors and also deploy capital more creatively. At the same time, it presents some embedded conflicts. How do you think about them? And where have you at Hamilton Lane led the way on some of those innovations?

MARIO: Yeah, looked at cynically, they are perpetual money-making machines. For those who don't know or haven't done a lot of them is, here's an example. I'm a General Partner, I have 10 portfolio companies, right now, anyway, I have one or two that are really, really good, and I want to keep it, but given the structure of private equity, I have to sell it after five or six years because my limited partners are screaming at me to give me the money back, and I got a

good gain on it. But I love this company and I think it's got another 10 years. So, my choice is, I can sell it and I make a lot of money and I'm happy. But a lot of times I'm going to sell it to another general partner who will then take credit for that 10-year advantage that I claim... No, no, I built this company. So don't take it from me, so that's not a great outcome. Although, we have continuation funds now where I take this company, talk about two bites at the apple and I move it to another fund where I get fees and carry and other investors and some of the existing ones can roll over.

As I said, that perpetual vehicle, which I talk about cynically, the question though is right now, a lot of those companies really are some of the best companies that private equity owns. As an investor, you have a very interesting choice. You can now create a much more tailored portfolio with that specific fund, but it's really a company or a couple of companies. For us, we've been significant players in that field because while you can worry about where that will go as worse companies come out and people start to try to get rid of their lousy ones. Right now, when you look at the world there... It depends what the Fed and Central banks do, but right now there's a ton of money in the world. There's no shortage of liquidity for opportunities except interestingly in the secondary market, because there's such a volume of these continuation vehicles and just secondaries generally and less capital available.

When you think about a supply-demand imbalance, that's an interesting place where that's occurring. From our perspective, it has changed the landscape of how companies get sold. I remember people used to always tell me that private equity is not interesting because GPs are selling to other general partners, and therefore, it's just an insider game and you can't make money that way. You did make money that way, but again, people ignore data in this industry. But now that's not what's happening. A lot of what's happening is it's going into these

vehicles and so I do think that will continue, obviously with the market down, we'll see what the deal flow is in the short term, but that's a trend that's not going away in terms of the ability to move these companies and keep them in a longer... Because the other thing I will also say, and investors are in very different places on this, it's almost split 50/50. A lot of investors, limited partners, don't want their money back in three or four or five years. They want it held, because they're saying, "My capital is compounding at 15, 16, 18 a year. Why do I want my money back and then have to re-invest it somewhere? I'd rather hold it for 20 years." These vehicles give you an opportunity perhaps to do some of that, whereas there are a lot of other investors who say, "I don't want to hear that. I want my money back very quickly."

2022 and Beyond

MO: I totally understand that. I just want to pick up on something you said earlier, which is... we've seen a little bit of softening in the market recently, and depending on what the Fed is going to do – you've mentioned that there's still a lot of money, still a lot of liquidity in the market – and I think in the last market overview you had, I believe you aptly called it King Midas and the Golden Touch, and that was you and the members of your team spoke about how private markets have done brilliantly well over the last 70, whatever number of years, and everything has gone up and done better than the public markets and so you have to be a monkey throwing darts and you would have made money. To what extent can this continue and how different is 2022 where we're starting to see cracks in the armor from 2021. How are you thinking about it?

MARIO: It'll be a vastly different year, it almost has to be. 2021 was extraordinary across everything in private markets. I mean, like you said, you had to really work to do poorly if you were investing

in the private equity, but it was a little bit like what... What did Rita Hayworth say when she divorced Orson Welles? "You get tired of being around genius 24 hours a day." And I think there was a little bit of that with some of the limited partners, hearing the general partners explain their genius to them, because there was an element of the market. With that said, let me give the industry its due, it really did pivot very quickly post the initial part of the pandemic into industries and companies that benefited from the pandemic. It sounds horrible to say with the suffering, but you know, as investors, they really did that part. And '21 was probably the best year in private equity history. So, it had to change, you just can't have that kind of performance and have it last. The part that is hard today is I think we're in a little bit of the delusion stage today where you've not seen valuations come down the way you have in the public markets. And I think there's still a feeling of, "Hey, the operating performance is really good, at least at mine, I know the five other general partners that have problems, but not mine." And so the performance is fine. And we've seen this movie before, the markets go down and then they go right back up.

I don't think collectively, the industry has really sort of come to grips with, "This could be different in terms of valuations really are coming down." Because again, as sort of the great salesman that everyone is in this business, they talk about, "We're going to get companies at cheaper prices." "Well, are your companies cheaper?" "No, mine aren't, theirs are." So I think that we are in this phase right now where people are... I think it's going to be hard to be doing a lot of deals until people have a better sense of... The sellers think we're still back in '21 and the buyers are saying it looks a little different.

MO: I think you see that perhaps most in the growth equity side than in the VC side of the market, where it's been such a wild ride for so long, topping pretty much every other private

market strategy for 10 years up until, call it, the beginning of 2022. Do you see, putting aside valuations, because those kinds of VC seem to operate on slightly different dynamics, do you see that wild ride, given the proliferation of technology and the continued growth of technology? Do you see that being an exception in some way?

MARIO: I don't know. I don't know yet. Because here's another thing that is different from '21 in the '22 market. Everybody in the world is fundraising, like everybody in the world, it's sort of the wildebeest migration of the PE world is now thundering across the plains to get money. And not only are they doing that with their flagship funds, but the other thing that's happened in the industry is everybody now is a multi-asset manager. I've got a buyer fund, I've got a growth fund, I've got a venture fund. So they're all coming with five funds. There's not enough money in the industry, there's just not enough money in the industry to support all of that, so there will be some rationalization, and I've said this before. General partners, they're vampires. You cannot kill them. They just sort of go on forever, they just don't disappear. So I think that is one thing that will happen. Where that impacts what you're talking about is... I'll distinguish between the venture side and the growth side. On the venture side, yes, there will be an enormous amount of opportunities, there still will be, but a lot of those companies need capital to grow because they burn it.

They are not profitable. Will there be as much money as there was last year? My guess is no, both because limited partners are a little more constrained and because general partners aren't as certain of the exit environment. They are not in many IPOs. The SPAC market has kind of died, so there, almost by definition, will be a little more discipline around handing the money out. So I think it will be a little tougher environment for the large number of venture firms, that doesn't mean that the great firms

aren't going to do great. On the growth, I think it's a little different. We just don't know because, what I said earlier, revenue is still really tracking well, and if the revenue is tracking well, you can grow faster than your multiples contracting. And I think the big debate now is, "Will economies slow down enough to impact some of these growth companies that their revenue doesn't hit the numbers that they're hitting now?" They're really doing well, so that one, I think it depends on where you think the economies are going.

Manager Selection Competition

MO: Right. I want to, again, drill a little deeper on this, on the competitive landscape, which you just mentioned, which is the fact everybody's out there raising money. There are more market participants, more firms, more hot managers that emerged in the last decade, and all of them seem to look good, all those numbers. As everybody on this call is thinking about it from a manager selection because we're engaged in an exercise of relative selection, how would you recommend allocators think about that process? How do you recommend they think about emerging manager versus established ones, about relationships with exclusive managers? How would you advise people going through that exercise today given the landscape you described?

MARIO: Yeah, I mean, I think whether they're using the public markets, they say some markets are a stock picker's market and some are a market environment, I think we're going into a stock picker's market. I think the last five, maybe even 10 years, if you're in growth, you did fine. Maybe you did 65 instead of 75, but you did really well. I do think we're going into an environment where it will not be as... Everyone will not do as well. There will be some selection bias in terms of some managers will do better, and so I think as investors, anyone listening to this needs to pay a little more attention to... And everyone will be

different, but where does the track record come from? Is it replicable? That's the part that we spend a lot of time on.

I have no problem with luck. I mean I've been lucky my whole life. Luck is great. But you can't rely on luck all the time. You have to have at least some theory of why this manager's strategy is replicable. Whether they're established or emerging, I think most portfolios tend to be more with established managers, you've got relationships with them, but I think you have to have some number of new managers each year simply because as the industry changes, it may or may not be correct that this particular area will be best served by some existing managers or not. I think you have to be very aware of people that are spinning out, of people that have some particular expertise and spend time with them.

Handicapping a Potential Downside

MO: Given what you said earlier, I think we all anticipate some sloppiness, we all anticipate some corrective mechanism in the marketing, some regression to the mean, whatever it may be. And so, anecdotally, we understand we're entering a potentially lower return, higher inflation, higher rate, higher cost to capital environment. How do we handicap a potential downside? In other words, you've been running a company that for 30 years has made money every single year. What are you advising your taxable clients, your family offices? What strategies are you most excited about that handicap that downside in this low-returning environment that we may have had and potentially a negative returning environment that we may have had?

MARIO: Yeah, here's what I'll say about a few things on that, because I think that is the most interesting... Here's another place where our industry is just crazy. We don't measure risk. By and large, most people don't measure risk. So I tell this story too, let's say... Remember Sartre's

No Exit, what is hell on Earth? Well, here's hell on Earth. You're a limited partner, you walk into a bar filled with general partners or vice-versa, you're a general partner, you walk into a bar filled with limited partners. So now you're in a bad place. And you have two general partners in front of you, you're sharing a drink, and you're the limited partner, and one general partner says, "I have a 21% return and I use 100% leverage, 80% leverage," and the other one goes, "I have a 20% return and I use no leverage." 90% of limited partners will pick that 21% because it's a higher IRR. I know numbers. 21's higher than 20. That's what I want. We don't measure risks in our asset class the way other investors do in the public markets just as a matter of norm.

Part of it is there's not enough data. And again, to your question earlier of how are we trying to use technology is to develop systems, get the data and put it in ways where we can measure risk, but it's still nothing like the public markets. But I do think when people in the private markets, private equity in particular, talk about risk, they tend to talk about risk of loss, "Oh my God, it's really risky. I'm going to lose money." We've got a bunch of data that says if you're in a diversified... The worst five years in buyouts – I'm not talking about venture – the worst five-year performance in buyouts is still positive. It's not negative like it is in almost every other asset class. It's also positive in private credit. So I don't think the risk that people associate with the private markets is actually... They're focusing on the wrong thing. I think in the private markets, there is a liquidity risk, but I think people really over-value liquidity. And I'll say another thing on private markets. I'm in the industry, so I don't mean to come across as, "Oh, this is the greatest thing in the world, put all your money in it." You shouldn't.

But people want liquidity for the wrong reasons, by and large. They want liquidity so they can get out when they should be getting in. And when you look at the great financial crisis, the reason private equity, everyone loved it is because they

couldn't get out. They were stuck. They made commitments to funds and they were stuck, Everything else they liquidated into cash and they never got back in and said, "Oh my God, these are terrible assets." No, they're not. The private equity, the structure actually keeps you from making the worst mistake investors make which is to get the hell out when... Jim Coulter at TPG always says, "When it feels terrible is when you should be investing, when it feels great is when you should be pulling back." And we all do the opposite. I do it. I'm not different from anyone else. So I do think right now in this environment, people need to step back and ask themselves, the most important question is, what is your risk tolerance? Private equity is outperforming public markets for the last 20, 25 years. I suspect it will going forward, there's nothing fundamentally that has changed.

Obviously, my prediction's as good as anyone else's. But if you look at what has driven that outperformance, the world hasn't changed so much that all those things have changed. So I think investors need to look at it and say, "Do I want to take the higher... How much of my portfolio do I want in the safer, call it buyout strategies, real asset strategies," the return profiles are different, "and how much do I want to put into the higher risk, higher returns?" Because those do lose money in various market environments. And so that to me is the more important question than whether long-term rates... Does the U.S. 10 get to four? I don't think those are really the most important questions in a five to 10-year investment program like this.

MO: Let me maybe ask you a slightly more pointed and personal question. And I ask this question to a lot of our legends and it's primarily because all of the folks on this call are family offices and individuals just like you. Perhaps you can share with us how you invest your own capital? What does your own asset allocation look like? I just find that to be incredibly instructive.

MARIO: I am 75%, 80% in illiquids.

MO: Do you mind elaborating a little bit?

MARIO: Across... It's mainly private equity, some credit, some real estate, but it's mainly equity. Because I just fundamentally believe that if I'm going to be in equity, I might as well be in a higher performing part of the equity asset class. I have no understanding of the public markets. I know we're a public company, but I have no clue how they operate. I mean, it just makes no sense to me that a company's worth \$100 one day and \$70 the next. So that's just a personal thing. But no, I believe in private equity in particular as being a better form of being in equity. I have the same belief in credit. So to me, liquidity, I have enough liquidity for a bottle of wine and my Toyota Highlander and I'm all set.

MO: Yeah, it helps when you don't need that much. It really does. And is there anything people would be surprised if all of a sudden people just looked at, glimpsed into your portfolio? Anything they would be surprised by?

MARIO: I don't think so. There's nothing exotic. I still don't understand crypto. I need to understand it better. So I need to figure out what I want to do there or what people should be doing there. No, there's nothing exotic. I probably have more cash than people would say, "You shouldn't have that much cash," simply because, again, my feeling is if I'm so tilted towards illiquid, then I probably ought to be more tilted on cash than might otherwise be the case.

The Demand for Co-Investing

MO: One of the things we haven't talked about, I hear this all the time, there's increasing demand from investors to participate in direct deals or co-investments. I'm curious to hear your thoughts on that. And is there any evidence that investors actually do better when they participate in deals directly rather than in a fund, even factoring in the absence of or the lower

fees that may be associated with that?

MARIO: Yeah, I think there is some evidence that doing co-invests, so investing alongside general partners, gives you a better return. I think some of it is, as you point out, because you're not paying the fees and carry normally, or at least the same as you're paying in a fund. I would be cautious right now in terms of doing it just to do it, because the data is based on what, 20 years of bull market. I know we had the great financial crisis, but it moved very quickly. And interestingly, during that time, you saw a lot of co-investment programs go south. And so, I do think there's an element of this that it is a trainwreck waiting to happen. There has been an enormous amount of co-invest and it's been free money. It's been easy. It's been no problem. But remember, co-investments go bad, and then you lose everything you put in the co-investment. It's not like a fund where you lose some one out of 10 deals, and so overall, you haven't lost. I think people need to be doing co-investments carefully, either with someone who knows what they're doing, or that they have a particular edge, a strategic edge they know. I know family offices often have... They know this industry, they know these people. And so that, I think is a good basis. But I think some of the co-investment programs we've seen where they just say, "Hey, I'm a general partner. I'm really good at this." Ugh, we'll see. We'll see if there's a bigger market.

Opportunities on the Horizon

MO: Interesting. Okay, and when you zoom out a little bit and when you look at what is happening in the world, what are you most excited about? What keeps you up at night? What are the greatest opportunities that you're seeing and greatest risks that you're seeing and what should investors be really paying attention to in either of those extremes?

MARIO: Well, I feel like right now we're in a transition and it's really hard to know where that transition

goes because it can go a couple of really bad places and a couple of not so bad places. So geopolitically, there's a war in Europe and that... I know it sounds terrible to say, but wars don't usually impact markets for very long, an unfortunate truth, even with all the suffering and damage. But this one is a little different in the sense that the sanctions, the collateral questions around the war. And so there is this giant geopolitical risk, what is China going to do?

So that's out there as a risk that people need to consider. Hard to invest around that because the outcome is a little binary, but it's out there. On the more economic side, there is a scenario where you have a very, very deep downturn in the markets. I'm not in that camp, so I'll be straight about that one. But I think you have to at least have that in the back of your head that this isn't going to be like '07 or '20 where it lasts for some short period of time, and then everyone's rescued out of it. So, I think that is a risk.

Then there's the element of, this may be what we do all the time. We get all excited and all worried and all believing that this is it, this is the big one, and it's not, that the U.S. goes into a mild recession and the Fed eases off and we just go back into our a low-interest rate, low-growth environment again, which is great for equity. I think as an investor, I know this sounds stupid because it's such boring advice, but you gotta look at, where are you trying to get to, and then not worry too much about the three or six-month blips. In the private markets in particular, you don't have a choice. It is the curse and the blessing of being in the private markets. You have to make a decision that you believe will last for three years at least, and you can't change your mind and say, "Oh, I bought Apple. I'm sorry. I'm going to sell it tomorrow." So, you have to be more strategic. That doesn't mean that the tactical elements aren't important, but you have no choice.

And one of the things I will say is another

mistake investors make in this asset class as they approach it the way they do the public markets. “Oh, I love this manager. It’s going in my portfolio. I love this deal. It’s going in my... “ It’s all bottoms up. Bottoms up. Everyone tells you their anecdote, “Oh, I had this deal at 10x. I’m really good.” What about the deals that weren’t? We don’t think strategically enough. We don’t step back and go, “Instead of spending the next hour looking at this balance sheet, I’m going to spend the next hour thinking about strategically what I want to achieve, and how are the pieces then go to the bottom up? How are the pieces going to fit within that building, building up to what I want to achieve?”

MO: That’s music to my ears, and certainly the way that you’re thinking about it and encourage others to do the same. But if I could actually deviate and go to the slightly more tactical, are there areas that you find extraordinarily opportunistic today? Is there anything that you’re super excited about?

MARIO: The secondary thing we talked about before. Again, given that relative constraint of capital relative to the opportunity set, I think is an interesting one. People should spend more time in that. I think they tend not to because, “Oh, it’s a deal the general partner already had. What am I interested in? Why would I want to look at these continuation funds?” But I do think that it’s an evolving and different world where, as I said, the supply-demand imbalance is a little problematic and favorable for the investors. I don’t know that there are a ton of other areas today that are screaming opportunities. The E part of the ESG that I talked about, the impact areas, I think those are interesting because again, you have political, social and capital-favorable areas behind you. I think there’s still a lot of capital in the markets and it tends to rush very quickly into opportunities.

MO: I hear that. Just on the social front, I mean obviously, this is a philanthropic event for kids

in Ukraine, and it’s usually focused on pediatric mental health. I know that from my research that that’s an area that you supported previously and even putting on a concert at CHOP, which is Children’s Hospital of Philadelphia for those who don’t know. More broadly, however, how do you think about corporate social responsibility in the context of Hamilton Lane and personally?

MARIO: A lot. I was having this discussion with someone this morning. One of the things, particularly with the Russian invasion, you hear the democracy versus autocracy, and that the autocrats have been in ascendance in the world over the last few years and now this is an opportunity for democracies to show that they function well. Part of the dysfunction in democracies has been both intended and unintended attacks on institutions and a lack of trust in institutions generally in the western world, certainly, and a reversion if you will, to tribes. “I’m a Republican, therefore I vote Republican, even if my candidate is insane,” and, “I’m a Democrat and I vote... “ We’re all going back to tribes. What that means is, with the lack of institutional trust and the tribe, people are going to their companies.

Oddly enough, that’s where I’m going to... That’s where I trust. And so, it puts companies, and I’ll speak candidly, selfishly as a CEO, in odd positions of being that trusted institution that people are looking to to say the right thing, to do the right thing. But remember, this company is composed of the same cross-section of people that exist in the already fractured country. And so, it is something that I know I spend, Kate McGann who you know, Kristin Williamson, spend a lot of time. How do we react? Because you’re put in a position of responsibility because, frankly, the other institutions are either failing or aren’t trusted, and you have to come through. And it’s very, very tricky, I think. And I think you have to go back to your... Are you being true to who you say you are, your value set? Because people know BS when they hear it and when they see it.

MO: Yeah, couldn't agree more. We're all out of time, but one last question, I can't not end without asking you. Best piece of advice you've ever received, and if there was only one thing that you could pass on to your kids or your grandkids, or grandkids you'll never meet, great, great, great, great grandkids, what piece of advice might that be?

MARIO: I don't know that there's one piece of advice, but the advice I'd certainly give people is back to that, you have to... You know in your heart. I remember someone said to me, "You know the right answer, and you spend a lot of time figuring out how to do something other than the right answer." And I think that's true of a lot of us. We know instinctively what is right and what we should be doing. Whether it's a big thing or something small, go with that more often than not. I'm not saying just go with whatever comes out of your head, do whatever you want to do, but man, we really do have a capacity to know what's right for us and find ways... Maybe not this time or... Just listen to that more often than not.

MO: Alright, that was amazing. Thank you so much for joining us today.

MARIO: Thank you.

MO: Thank you for sharing your incredible insights and being so generous with your time and your wisdom, and we hope we can do it again soon.

MARIO: My pleasure. Thank you.

*As of December 31, 2021, AUM inclusive of \$752.9B+ in AUS and \$98.8B+ in AUM

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